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Subject: UBS Settlement Structure (9).pptx
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Attachments: UBS_Settlement_Structure_(9).pptx

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HCMUBS005251

Settlement Analysis



UBS

VS.



If Highland does not settle...

AND UBS WINS:

1. Highland loses all assets in HFP/CDO Fund (HFP assets include \$32m DAF Note Payable) (*see Slide 9 and Appendix 1*); **AND**
2. Highland faces years of fraudulent transfer claims throughout Highland structure (*see Slide 9*); **AND**
3. HCMLP faces clawback of \$9m and liability to backstop HFP/CDO Fund for up to \$1.2b (\$686m principal + \$511m interest back to 2009) (*see Slide 9*); **AND**
4. Giant PR hit (*see Slide 7*).

OR HIGHLAND WINS:

1. HFP is solvent = reverses 2008's \$257m tax write-off by HCMLP (resulting in \$50m+ in taxes due from HCMLP's partners) (*see Slides 3*); **AND**
2. UBS appeals, so issue is left unresolved for years (*see Slide 4*); **AND**
3. Citi has \$34m claim against CDO Fund assets (*see Slides 5, 9*); **AND**
4. If CDO Fund can't pay Citi \$34m, then HCMLP has to pay the balance (*see Slides 5, 9*).

BOTTOM LINE: There is no upside to going to trial in either matter.

Taxes: If Highland Wins... it Loses

- If Lackey wins at trial = HFP has positive value
 - Result: Reverses 2008 HFP tax-write off from 2008
 - Resulting Tax Liability:

Dondero: \$50m+	*Pat Daugherty: \$167k
*Crusader: \$20m+	Davis Deadman: \$110k
*Goldman: \$15m+	Also: Plumer, Paul Kauffman,
Scott Kavanaugh: \$1.4m	Borud, Okada, Joe Dougherty,
*Todd Travers: \$1m	John Morgan
John Honis: \$212k	
 - Everyone who suffers tax consequences has a litigation claim for mismanagement against HCMLP and Dondero (as decision maker for HFP)
- *Red, most likely to assert claims

If Highland does not settle: UBS Appeals

- UBS appeals in NY State Court
- Average time to outcome is 2 years
- \$5m additional legal expenses
- Can be remanded back to trial court to start all over; OR
- Can be reversed and HCM loses

If Highland does not settle: Citi

- Trial in late 2017 or 2018
- Additional PR issues
- Delay repairing trading relationship
- Incur \$3-4m in Lackey fees through trial
- Have to pay for Citi's legal fees under the terms of the contract
- \$24m principal liability + \$10m in Citi's legal fees
- CDO Fund pays, but if it can't, then HCMLP has to pay balance

If Highland Settles...

1. Sentinel controls HFP/CDO Fund assets (currently \$94m) (*see Slide 10*); AND
2. Sentinel and HCMLP can use HFP/CDO Fund assets to generate cash to pay UBS settlement, Citi, and outstanding legal fees (*see Slides 12-16*); AND
3. HCMLP's \$50m+ tax liability is avoided (*see Slides 3, 9*); AND
4. Residual assets (up to \$50m) stay at Sentinel (*see Slide 16*); AND
5. Potential to repair UBS distribution/relationship (*see Slide 7*); AND
6. PR issues resolved (*see Slide 7*); AND
7. Crusader Redeemer Committee remains the stand-alone target (*see Slide 7*).

BOTTOM LINE: Even if UBS and Citi are awarded ZERO damages, settlement still nets \$100m (Avoids \$50m tax liability + keeps \$50m in net HFP/CDO Fund assets)

If Highland Settles: PR

- Amicably and **privately** resolve:
 - Credit Strat
 - UBS
 - Citi
- No more defensive bank-counterparty lawsuits
 - Credit Suisse “offense” is the only remaining story
- Final “Crisis” issue is Crusader (Committee is alone on an island)

UBS Settlement: Structure Summary

Step 1: HFP/CDO Fund buy \$100m ATE policy from Sentinel

ATE premium = all assets in HFP/CDO Fund

Step 2: Negotiate settlement amount with UBS

Step 3: Sentinel generates cash from HFP/CDO Fund Assets

Step 4: Sentinel pays settlement amount to UBS

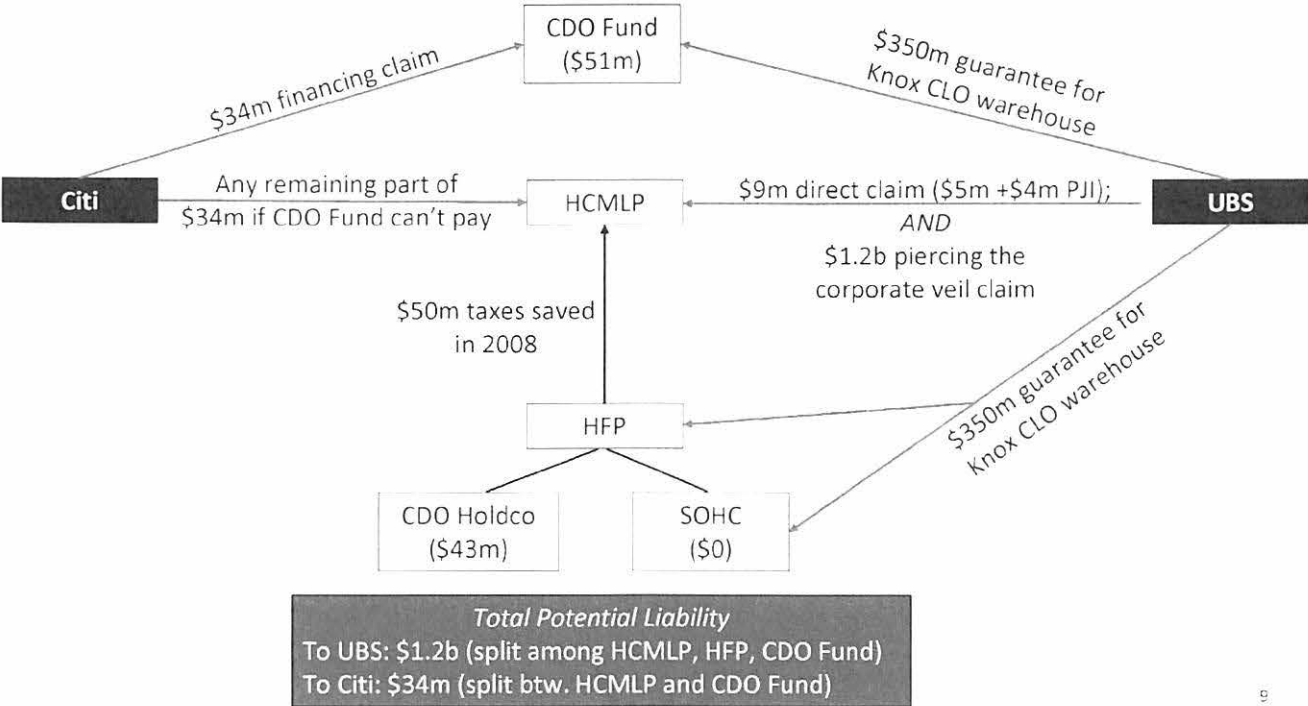
Step 5: Sentinel pays Lackey legal bills

Step 6: HCMLP (or designee) or Sentinel pay Citi

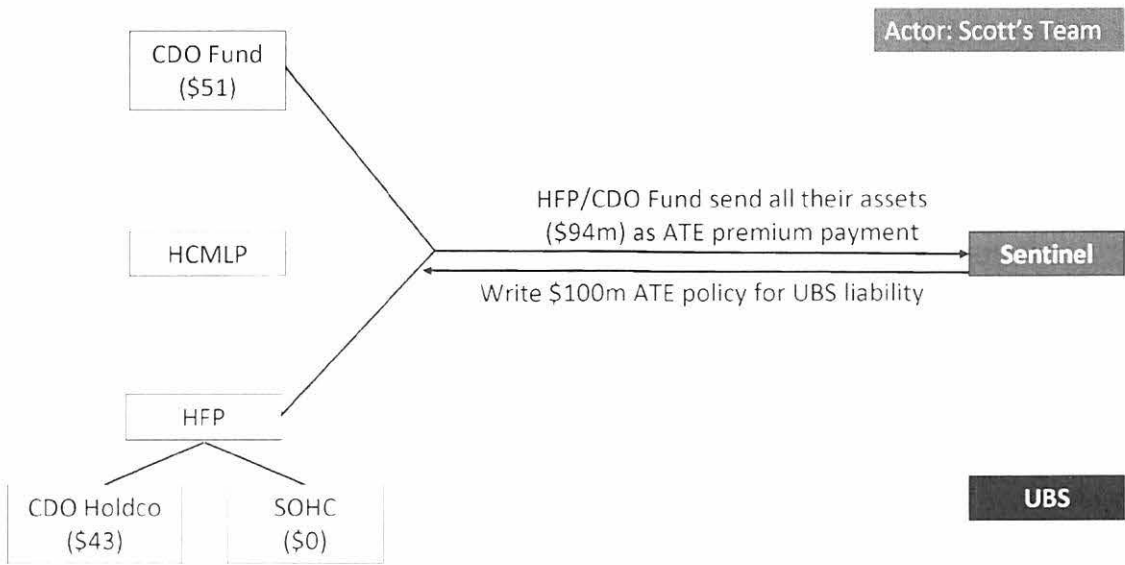
Conclusion: Sentinel keeps net assets (could be up to \$50 million)

Here is why we should settle...

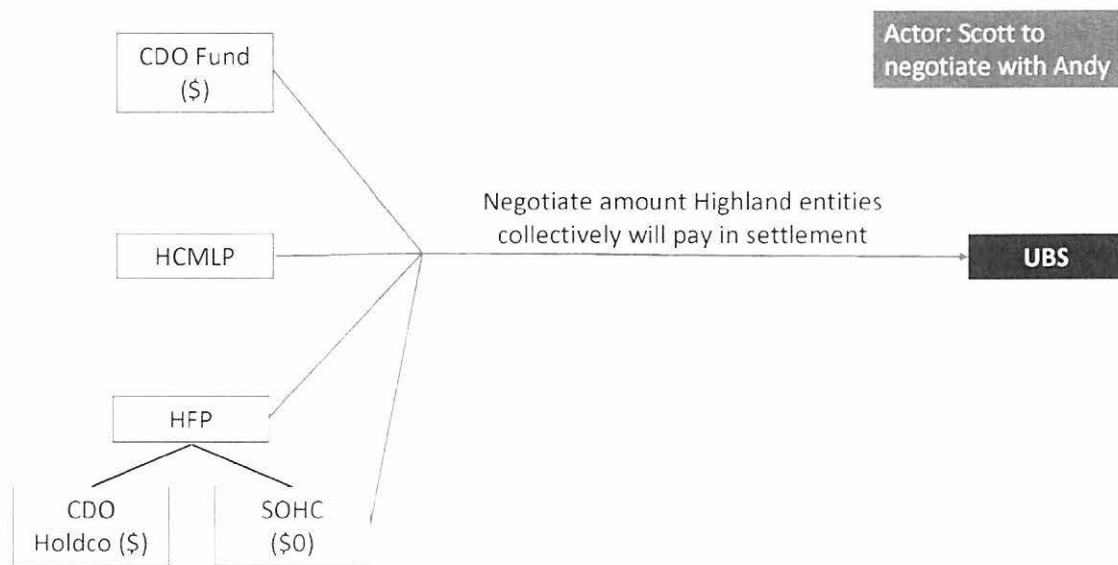
UBS Settlement: Assets and Liabilities



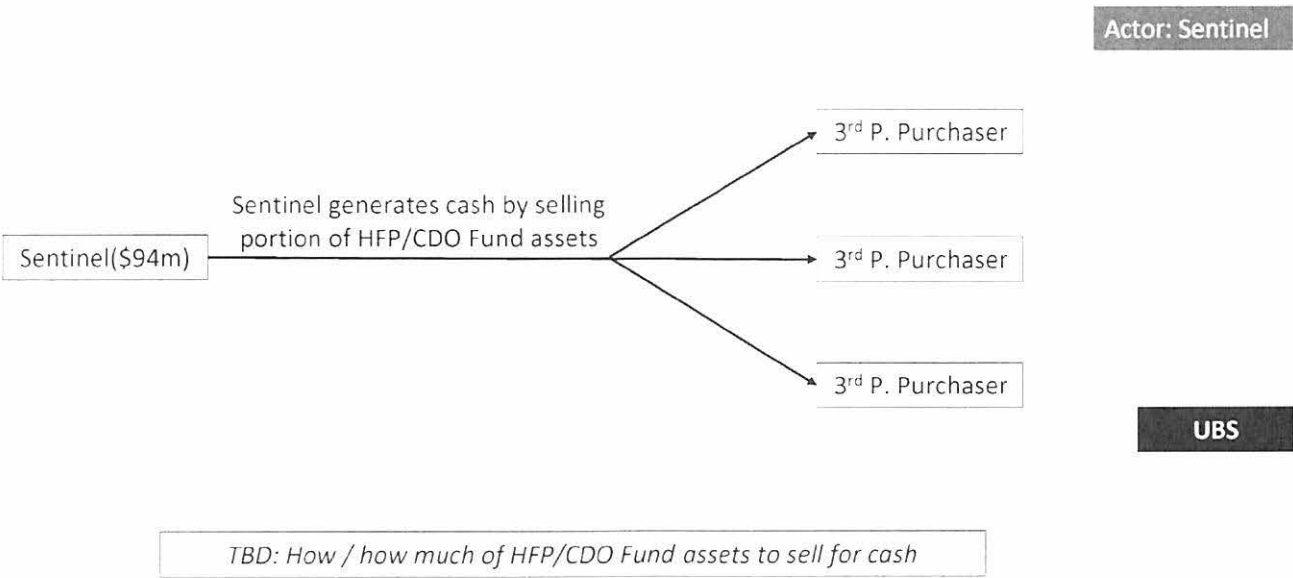
UBS Settlement: Step 1 – ATE Policy



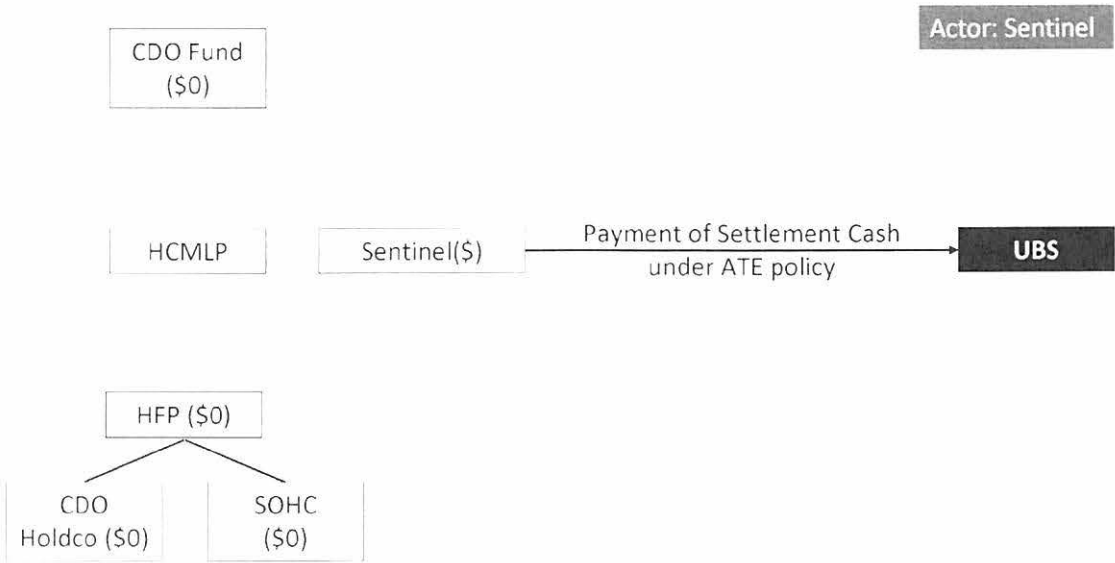
UBS Settlement: Step 2 – Negotiate Settlement Amount



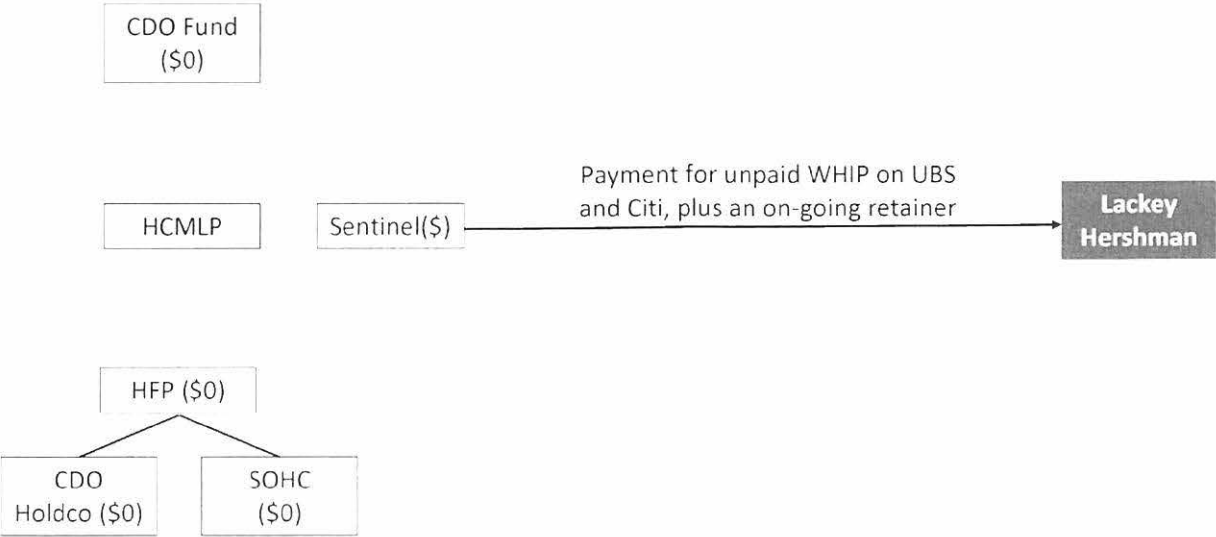
UBS Settlement: Step 3 – Generate Cash



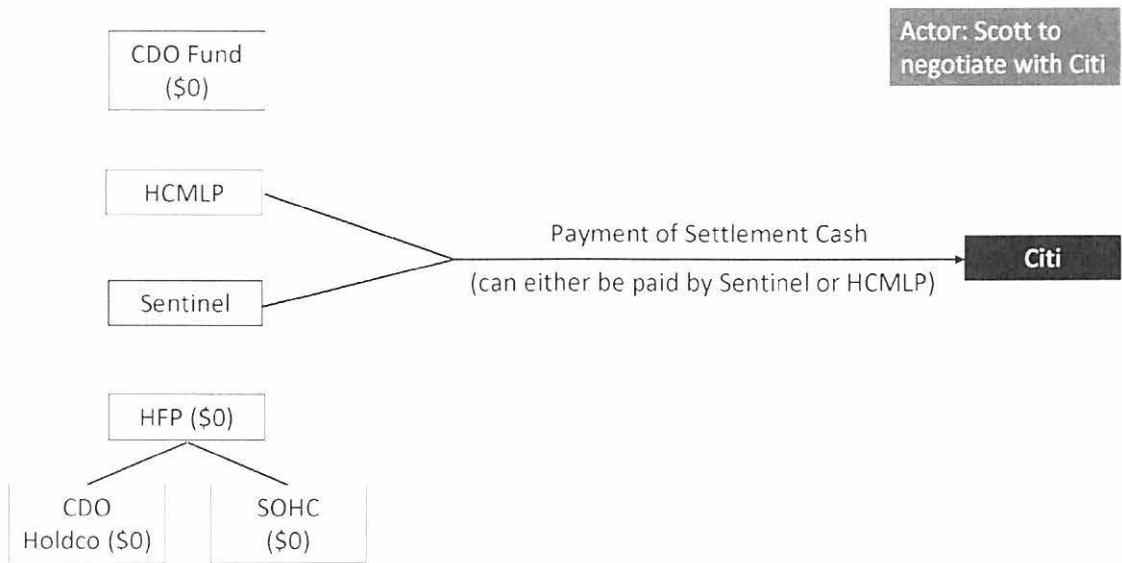
UBS Settlement: Step 4 – Pay UBS



UBS Settlement: Step 5 – Pay Lackey



UBS Settlement: Step 6 – Pay Citi



UBS Settlement: Step 7 – Remainder



Appendix 1